Main Street Guide for Property Development

Fall 2021 Edition

WASHINGTON STATE MAIN STREET PROGRAM
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Welcome from the Washington State Main Street Program Director

A property owner, a community developer, and a mayor walk into a bar. They start talking about properties on Main Street and each of them bring up different tools and incentives they know about. They realize there are a lot of resources out there and wonder if there is some sort of roadmap or glossary that will help them understand all of the opportunities that might help them spur reinvestment in their downtown district.

Whether or not it occurred in a bar, some version of this scenario has played out for many of us in the preservation and community development field over the years. Reinvestment in historic properties is a key factor in any flourishing downtown district. There are many resources available to private investors, the public, or even nonprofits wishing to breathe life into a historic downtown building. Our goal with this guide is to break down those opportunities, share success stories to help illuminate them, and provide an easy-to-use glossary for your reference.

While this guide was designed by and for Main Street professionals and volunteers, we hope that it will prove equally beneficial for newer or prospective small-scale developers in your communities. Add this guide to the toolbox you’re using to help turn the affection and connection people feel for your historic downtown into understanding and action.

Breanne Durham, Director of Washington Main Street
Washington Trust for Historic Preservation

Photo: Coupeville, WA.
Introduction

By design, local Main Street organizations around Washington state take an incremental approach to community revitalization. In alignment with the Main Street Four-Point Approach™, Main Street organizations build on the unique attributes of their community to stimulate economic development in the heart of their downtowns.

Yet many Main Street directors will also attest to the catalyzing influence of one building rehabilitation project—supporting new business growth, fostering community gatherings, showcasing local art, or bringing in new visitors or audiences—that changes a block or even transforms an entire downtown. Given that one in four residents of the state live within five miles of a Main Street, the impacts of such projects can reverberate through communities.

Most Main Street organizations recognize that downtown real estate is a keystone in establishing a foundation of support for existing businesses—and in attracting new ones. In 2020, the Washington Main Street Program generated $33 million in public investment and $78 million in private investment across 34 local districts, including new business development, marketing, and real estate investment in historic properties. Main Street organizations administer façade improvement grants, hold possibility tours to show off vacant buildings to potential buyers and tenants, and provide information on and advocacy for use of development incentives and strategies Main Street leaders seek to galvanize use of existing properties.

As advocates of downtown property development, Main Street leaders draw on knowledge of a variety of strategies, tools, incentives, and funding sources, and 92% of Washington Main Street organizations report actively supporting business owners and property owners to preserve and restore buildings in their communities. But despite the value that Main Street leaders bring to promoting, programming, connecting, and catalyzing the actual work of property redevelopment is often left to “experts,” and the mechanics of the process of building acquisition and financing remains a black box. (By way of example, the average annual allocation for supporting property redevelopment at most Main Street organizations is $8,000 out of an average operating budget of $235,000.)

With more resourcing, there are certainly additional opportunities for Main Street organizations to play an even more active role in supporting property redevelopment in their communities, either through direct involvement or by connecting project proponents with other professionals that can bring the expertise of completing building redevelopment projects.

How to Use This Guide

This guide is designed to provide information on some of the key questions that surround the financing of downtown property redevelopment: How do developers typically raise capital for their projects? What resources exist to help finance projects, and what are their limitations in terms of building process or end use? And who is eligible for which funding sources? As you navigate through the guide, you’ll encounter the following sections:

ELIGIBILITY: We realize that one of the most common challenges for financing is who can access it—and how. The ‘eligibility matrix’ provides details on the limitations of the funding sources featured in this guide and included in the appendix.

SECTIONS: This guide is organized into four sections. The first section focuses on tax credit programs, which are designed to incentivize and encourage the preservation of historic buildings (see specific sections for what constitutes a historic building) and, because they are accessible to a wide range of development actors, the rest of the guide is organized by who is doing the property redevelopment: private entities (like small or mid-sized developers), public organizations (like municipal governments or other government agencies), or nonprofit organizations (like Main Street organizations themselves). Each section features specific financing sources or tools unique, or at least tailored to, those entities.

CASE STUDIES: Throughout the four sections, we include brief case studies to showcase how different communities have used different tools and incentives to carry out catalyzing development projects in their downtowns.

APPENDIX: In addition to the sources outlined in the sections, the appendix includes more detail about other available funding sources and financing tools. While it is far from exhaustive, this guide provides both a glance information on a variety of funding opportunities and incentives, as well as more in-depth examples of how some of these opportunities were used to bring life back into otherwise-neglected properties around the state.

Who’s on Your Team?

All projects have unique needs, but most of them include a combination of specific project team members who can support at different stages of the process.

A historic preservation professional/historic architect can help you to understand eligibility; provide support with historic and tax credit documentation or application for listing on the National Register; and offer guidance with historic materials, methods, and regulations.

Even before deciding to purchase a building, a general contractor, structural engineer, and/or specific trades professionals (electrician, plumber, carpenter) can provide information on the building’s condition, anticipated construction needs, and estimated costs for repair or rehabilitation.

In many development projects, working with a commercial lender is helpful before, during, and after a building purchase. In addition to helping to approve a commercial mortgage amount, a lender can help to review the viability of a pro forma and provide information about construction loans to help pay for early project costs.

A realtor is often essential for any kind of real estate transaction, and a real estate attorney can help provide guidance about specific kinds of real estate transactions, such as gifts, exchanges, and other incentives.

For traditional development projects, investors are individuals or entities who provide early capital for an ownership stake in a real estate LLC or other business structure.

Particularly for tax credit and other incentive programs, municipal historic preservation or planning staff can help to provide information about your building’s eligibility and any particular local regulations that may impact your plans for rehabilitation.
Am I Eligible?

There are many ways to finance the rehabilitation of historic properties, ranging from private investment financing to direct grants. This table provides an overview of these different kinds of financing sources, organized by different eligibility considerations: who can access them, where they are located, and what type of funding source they are. Several of these sources have more detailed writeups in the chapters in this guide; the remainder can be found in the appendix, with links to more information.

The financing sources included in this document are available throughout Washington state, but this list is not exhaustive, and your local community may have additional funding sources available. Connecting with your local Main Street organization or municipal government staff is a must early in the process!

In addition, www.PreservationDirectory.org and the Department of Archaeology and Historic Preservation (www.dahp.wa.gov/grants) also maintain lists of additional funding sources for historic property redevelopment.

<table>
<thead>
<tr>
<th>FUNDING</th>
<th>WHO</th>
<th>WHERE</th>
<th>WHAT</th>
<th>NOTES</th>
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<tr>
<td>1031 Exchange</td>
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<td>Tax benefit for property owners who reinvest proceeds of a property sale in another property.</td>
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<tr>
<td>Building</td>
<td>Communities Fund</td>
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<td></td>
<td>Grant administered by the Washington State Department of Commerce for nonprofits to build non-residential community facilities.</td>
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<tr>
<td>Building for the Arts</td>
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<td></td>
<td>Grant administered by the Washington State Department of Commerce to fund capital facilities for arts organizations.</td>
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<tr>
<td>Community Development Block Grant</td>
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<td></td>
<td>Funding source administered by the Washington State Department of Commerce to support a wide array of projects (infrastructure, housing, community facilities) in rural communities.</td>
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<tr>
<td>Federal Historic Preservation Tax Credit*</td>
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<td></td>
<td>Tax incentive available to owners of properties listed on the National Register of Historic Places investing in substantial renovation. Note: The HTC is only available to nonprofits and public agencies in certain circumstances.</td>
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<tr>
<td>Gifts*</td>
<td></td>
<td></td>
<td></td>
<td>Legal tool enabling donors to receive a tax benefi- t when gifting real estate to nonprofit organi- zations and select government entities.</td>
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<tr>
<td>Heritage Capital Projects Grant*</td>
<td></td>
<td></td>
<td></td>
<td>Grant source administered by the Washington State Historical Society for capital investments in heritage facilities and resources.</td>
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<tr>
<td>Historic Theater Grant Program</td>
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<td></td>
<td>Grant source administered by the Department of Archaeology and Historic Preservation and managed by the Washington Trust for Historic Preservation to fund the rehabilitation of historic theaters. Note: 50% match requirement for all, or 25% match for distressed counties or “rural” (&lt;50k population) jurisdictions. Does NOT need to address historic architecture features, but must be capital improvement (physical) project.</td>
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<th>LEGEND</th>
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Many grant programs or other funding sources have their own definitions around the eligibility of a property, defined by things like location, development entity, or planned use of the property. Grant descriptions throughout this guide and in the appendix provide more detail about whether your project will be eligible.
### Section 1: Tax Incentive Programs

**Introduction**

What is a tax credit?  
Not to be confused with an income tax deduction, which lowers the amount of income you are taxed on, a tax credit lowers the amount of tax you owe, dollar-for-dollar. In some ways, you can think of a tax credit as a debit card to the IRS.

In 1976, Congress created the Federal Historic Rehabilitation Tax Credit (often called the “HTC”) to rebalance support for historic buildings in the federal tax code. In doing so, Congress recognized the importance of historic buildings in creating tangible links with the past, giving a community a sense of identity, stability, and orientation—and they also created one of the most successful programs for investing in local communities and their revitalization.

As of 2020, the Federal Historic Tax Credit has been revenue positive since its inception, generating more than $53 billion in federal, state, and local tax revenue, creating more than 2.8 million jobs, and preserving more than 45,000 buildings nationwide. Since then, other types of government incentives for historic preservation have followed at the state and local level.

This section reviews two of the major kinds of tax incentive programs available to historic buildings in Washington state: the Federal Historic Rehabilitation Tax Credit and Special Valuation. While the Federal Historic Rehabilitation Tax Credit is a Federal income tax credit administered jointly at the state and Federal levels, Special Valuation is a property tax deduction that is administered at the local level.

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<th>WHAT IS IT?</th>
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<tr>
<td>The Federal Historic Rehabilitation Tax Credit Program (HTC) supports the rehabilitation of historic buildings—and is one of the federal government’s most successful community revitalization efforts, promoting the rehabilitation of historic structures of every period, size, style, and type. If a historic building owner is considering a substantial rehabilitation project that would result in an income-producing property, this program can provide significant savings in the forms of tax credits.</td>
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<tr>
<th>Eligibility Facts</th>
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<tr>
<td><strong>Administrator(s):</strong> Joint administration by the National Park Service and IRS; reviewed in Washington State by the Department of Archaeology and Historic Preservation (DAHP)</td>
</tr>
<tr>
<td><strong>Where:</strong> Statewide</td>
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<td><strong>When:</strong> Continuous</td>
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### Eligible projects:  
Income producing buildings listed or eligible for listing* in the National Register of Historic Places. (Note: *Building must be ultimately listed.)

### Ineligible projects:  
Non-income-producing properties (e.g. owner-occupied single family residences)

### Contact:  

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| **Federal Historic Rehabilitation Tax Credit** |

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<tr>
<th><strong>Low-Income Housing Tax Credit</strong></th>
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<tr>
<td>Tax incentive provided to investors and administered to nonprofits by the Washington State Housing Finance Commission to fund affordable housing projects.</td>
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<th><strong>Multifamily 80/20 housing bonds</strong></th>
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<td>Loan program available to for-profit affordable housing developers.</td>
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<th><strong>New Market Tax Credits</strong></th>
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<tr>
<td>Tax credit for investors who provide financing to a Community Development Entity (CDE); CDEs in turn provide grants and loans to businesses or investors operating in low-income communities.</td>
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<tr>
<th><strong>Nonprofit Facilities Program</strong></th>
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<td>Loan program for nonprofit capital facility development, administered by the Washington State Housing Finance Commission.</td>
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<th><strong>Opportunity Zones</strong></th>
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<td>Tax incentive (capital gains deferral) for investors who invest in Qualified Opportunity Funds (QOFs); QOFs must invest 90% of their assets in designated low-income areas.</td>
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<th><strong>Preservation easements</strong></th>
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<tr>
<td>A legal agreement that protects a historic property in perpetuity; in some cases, it can confer certain tax benefits to owners.</td>
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<th><strong>Public development authorities</strong> (page 23)</th>
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<tr>
<td>Legal classification for public sector corporations to enable specific kinds of private and public investment.</td>
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<th><strong>Special Valuation</strong> (pages 10-11)</th>
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<tr>
<td>Tax incentive for property owners of locally designated historic properties doing substantial rehabilitation work.</td>
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<tr>
<th><strong>Rural Development Loan Assistance Program</strong></th>
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<tr>
<td>Loan program administered by the US Department of Agriculture for developing essential community facilities in rural areas.</td>
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<th><strong>Valerie Sivinski Fund</strong></th>
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<tr>
<td>Grant fund administered by the Washington Trust for Historic Preservation for historic properties in Washington state.</td>
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These credits provide a dollar-for-dollar reduction on an owner's tax liability and can help to cover the extra costs of doing faithful historic rehabilitation work.

AM I ELIGIBLE?
- Listed on (or eligible for) the National Register of Historic Places. A certified historic structure is a building that is listed individually in the National Register of Historic Places (NRHP) or contributes to a historic district listed in the NRHP. (Note: Just because a building is listed on the local register or within a local district does not necessarily mean it will be eligible for the NRHP.) If the building is not yet listed, owners can still apply to request a preliminary determination of individual listing from the Department of Archaeology and Historic Preservation (DAHP). Buildings that receive the HTC must abide by the Secretary of the Interior’s Standards for Rehabilitation.
- Income-producing. Buildings must be income-producing for the 5 years after project completion. This typically means commercial or rental purposes are allowable, but excludes owner-occupied residences (though rental residences are eligible).
- Improvement cost is equal to or greater than the building’s value. A ‘substantial’ improvement means that the total amount spent on the renovation must be equal to or greater than the value of the building. This is typically calculated as the purchase price of the property, minus the land value and any depreciation, plus any improvements. This means that small repairs are rarely eligible for the HTC, unless the property has been under current ownership for a long time. Similarly, more recent acquisitions with high purchase prices will also have a higher threshold to be considered ‘substantial.’

CAN NONPROFIT AND PUBLIC ENTITIES ACCESS THIS INCENTIVE?
Like all tax credits, Federal Historic Rehabilitation Tax Credits are only available to entities who pay taxes—making it more challenging for public entities and nonprofits to access tax credit incentives. However, nonprofit developers can still receive tax credits through a syndication process, which usually requires the creation of a new real estate LLC (see section 2) that will own the building or hold a long-term lease, and then involve a syndicator (like the National Trust Community Investment Corporation) as one of the project’s partners. This syndication process essentially allows the investor to claim the tax benefits in exchange for providing an up-front capital investment in the project. Many nonprofit developers who use the Federal HTC use it in tandem with other funding sources for specific uses, including the Low-Income Housing Tax Credit and New Market Tax Credits (you can learn more about both in the appendix), to maximize public financing for social benefit projects like affordable housing and community facilities. There are some ways for public entities to access the HTC as well, including through public development authorities (see section 3).

HOW DO I APPLY?
Applying for the Federal Historic Tax Credit program is broken into three parts:
- **Evaluation of significance (Part 1):** This ensures that the building is eligible for the National Register and will qualify for the tax credits. Documentation includes verbal descriptions of the building’s significance and physical historic characteristics, supplemented by historic and current photographs, and a map of the building’s location (if located within a historic district).
- **Description of rehabilitation (Part 2):** This is the heartiest part of the application process, and documents existing conditions as well as an outline of the proposed work. The documentation must include photographs of the existing conditions inside and out, as-found drawings or sketches, and verbal description of the building’s features, spaces, and components. The proposed work must be documented through a combination of architectural drawings or sketches, verbal descriptions of the scope of work, and in some instances, specifications, product cut sheets, or renderings as applicable. All of the work proposed must meet the Secretary of the Interior’s Standards for Rehabilitation.
- **Request for certification of completed work (Part 3):** This is the final application in the certification process that the property owner must complete to confirm that the work has been completed as approved and consists of photographs of the completed conditions. Once awarded, the credit can be applied retroactively one year and carried forward up to 20 years, but must minimally be taken over a 5-year period.

WHAT ELSE DO PROPERTY OWNERS NEED TO KNOW?
- **Contact DAHP Early:** Ultimately, the NPS will determine whether a rehabilitation project qualifies for the tax credits, but Washington’s Department of Archaeology & Historic Preservation (DAHP) is able to provide support and technical assistance to interested property owners. The best first step is to contact DAHP and discuss certified historic status and planned rehabilitation of a building before moving forward with applying for the Federal Historic Tax Credit. If you need help navigating the process or documentation requirements, DAHP is available to help. There are also many consultants and architects that have successfully completed projects throughout the state and country that have taken advantage of the program.
- **Start the application process early:** There are some rules that negate a property owner’s eligibility from obtaining these tax credits if they start the application process too late in the rehabilitation process or after construction is complete. Remember, it’s easier to move a line on a piece of paper than it is to move a wall! Consulting with DAHP and beginning the application process will ensure that this work adheres closely to the Standards and does not invalidate the application (or require you to do the work over again).
- **Consider hard and soft costs as eligible expenditures:** Both hard construction costs and soft costs can be eligible expenditures. This is an important consideration when calculating whether or not you have a substantial project. Architect and engineering fees, reasonable development fees, permit fees, and consultant fees are all examples of soft costs that can be included in the total rehabilitation cost. It is also worth noting that costs associated with enlargement of the structure are not eligible expenditures, so while most construction activities within an existing building are likely to be eligible, a building addition would not count towards eligible costs.

**About the Secretary of the Interior’s Standards for Rehabilitation**

According to the National Park Service, which develops and maintains the standards, “The Standards are a series of concepts about maintaining, repairing, and replacing historic materials, as well as designing new additions or making alterations. The Guidelines offer general design and technical recommendations to assist in applying the Standards to a specific property. Together, they provide a framework and guidance for decision-making about work or changes to a historic property.” You can learn more at [https://www.nps.gov/tps/standards/applying-rehabilitation.htm](https://www.nps.gov/tps/standards/applying-rehabilitation.htm).

**Description of rehabilitation (Part 2):** This is the heartiest part of the application process, and documents existing conditions as well as an outline of the proposed work. The documentation must include photographs of the existing conditions inside and out, as-found drawings or sketches, and verbal description of the building’s features, spaces, and components. The proposed work must be documented through a combination of architectural drawings or sketches, verbal descriptions of the scope of work, and in some instances, specifications, product cut sheets, or...
Special Valuation

WHAT IS IT?

Often working hand-in-hand with Federal Historic Rehabilitation Tax credits, Special Valuation is a statewide tax incentive program typically managed at the local level that provides a 10-year tax break that reduces property tax liability by effectively lowering the assessed value by total rehabilitation costs of a project. (Therefore, even if a property increases in value as a result of the rehabilitation, the tax break helps lower the annual taxes.) In jurisdictions of less than 20,000 people, property owners may be able to extend Special Valuation in (2) 7-year increments if the property is located in a distressed area (per the state Employment Security Department).

In order to take advantage of this program, rehabilitation costs (or “qualified expenditures”) need to be at least 25% of the assessed value of the structure prior to rehabilitation. This might sound daunting, but the value of the structure does not include the value of the land. In addition, the “qualified expenditures” can be soft or hard development costs of the whole project, beyond work completed on historic character-defining features. In other words, a project could include costs from electrical upgrades or HVAC systems toward the 25% threshold, along with restoration of moulding and millwork—typically, it will include any upgrades or fixtures that stay with the building (a new bathtub would qualify, but a new washing machine might not).

Although this law was enacted at the state level, only local governments have the authority to implement the law and pass on tax relief to owners. This means that the best way to learn more about your project’s eligibility for Special Valuation is contacting your local historic Preservation Office or Planning staff.

Eligibility Facts

**Administrator(s):** Local governments, typically Historic Preservation Commissions in Certified Local Government (CLG) communities

**Eligible organizations:** Any owners/entities who owe property taxes

**Where:** Communities that have passed Special Valuation ordinances, typically in CLG communities

**When:** Annual application due October 1

**Eligible buildings:** Income-producing and private residential historic buildings (e.g., those that meet the definition of a “Historic Property” defined in local ordinance)

**Ineligible buildings:** Buildings that do not meet the definition of a “Historic Property” as defined in local ordinance

**Contact:** Local Historic Preservation Commissions (www.dahp.wa.gov/local_preservation/certified_local_government-program/clg_program/participants)

**IS MY PROJECT ELIGIBLE?**

When applying for Special Valuation, be sure your property and rehabilitation project meets the following standards:

- The structure is listed on your city’s local historic register (or is located within a local district) or the National Register of Historic Places (depending on your local government’s criteria).
- Unlike the Federal Historic Rehabilitation Tax Credit, Special Valuation may be claimed for both income-producing buildings and private residences.
- Rehabilitation projects must have “qualified expenditures” equal to or greater than 25% of the assessed value of the structure prior to rehabilitation.
- Costs must be incurred within 24 months of the date of the application.
- Rehabilitation work should meet the locally adopted review standards for Special Valuation.

**WHAT ARE MY RESPONSIBILITIES?**

During rehabilitation work, it’s the owner’s responsibility to maintain accurate records of project costs and dates of project work, allowing you to prove that the 25% threshold was met within 24 months of the application date. Though it depends on the specifics of the local ordinance, the work also typically needs to minimally align with the Washington State Advisory Council’s Standards for Rehabilitation (which overlap with the Secretary of the Interior’s Standards for Rehabilitation, but are generally more focused on overall building upkeep and maintaining key historic features rather than adhering to specific guidelines related to historic design or materials). Additionally, in accepting Special Valuation, the owner agrees to meet the following during the 10-year special valuation period:

- The property must be maintained in good condition.
- The owner must obtain approval from the local review board (usually a Landmarks Preservation Commission) prior to making further improvements.
- The property must be visible from a public right-of-way, or otherwise be made available for public view once every year.

**HOW DO I APPLY?**

Applying for Special Valuation is done at the municipal level with approval from a Historic Preservation Commission or local review board. Filing an application with the assessor’s office should be done no later than two years after beginning the rehabilitation work. The application must include:

- The legal description of the property.
- Comprehensive exterior and interior photographs of the property before and after rehabilitation.
- Architectural plans or other legible drawings depicting the completed project (this will typically depend on the needs of the local government).
- A notarized affidavit attesting to the actual cost of rehabilitation work.
- A statement from the appropriate local official indicating that the property is a certified historic structure, if it is located in an historic district (rather than individually listed on the local or National Register).

Photo courtesy of Ellensburg Downtown Association

Photo courtesy of Ellensburg Downtown Association
**Case Study: Hotel Maison — Yakima, WA**

**HISTORY: A MASONIC TEMPLE FOR A GROWING CITY**

Yakima’s Hotel Maison occupies the historic 6-story Great Western building, in the heart of downtown. Built in 1910 as a Masonic Temple, the building was the tallest between Seattle and Spokane—and fronted along a Yakima Avenue that was still unpaved dirt.

The building’s first floor served as a lobby, with upper floors serving as office space. Most impressive was the sixth floor, where the Masons created a meticulously accurate replica of the interior of Solomon’s temple—in fact, the stone keystone for the arch of the building’s entrance was reportedly sourced from a quarry outside of Jerusalem that had provided the original stones for King Solomon’s temple.

The Masons sold the building in 1965, leaving the building to sit empty for a number of years, during which time it was subject to vandalism on the lower floors. Eventually, the building became a bookstore, with upper floors continuing to serve as an office building. Luckily, the Masonic Temple remained basically untouched.

**HOTEL MAISON: A NEW MODEL FOR DOWNTOWN TOURISM**

In 1998, JEM Development, a Yakima-based, family-owned development company with deep agricultural roots in the Yakima Valley, acquired the building. Only the third owners since the building’s founding, the building had incredibly intact historic materials and features, including the original intact historic materials and features, including the original historic materials and sense of place, including a completely restored Temple with original stained glass, plaster relief columns, and sculptures.

In 2015, the family realized their years-long vision for the architectural treasure: a boutique hotel, reflecting the growth of tourism in the Yakima Valley and Yakima’s downtown. The group worked closely with historic preservation professionals to make sure that they understood the building’s history and architecture, could develop a building that would work for today’s hotel visitors, and still preserve the building’s special features.

After two years of construction, the hotel opened in 2016 and features 36 rooms, a gym, an adjacent spa building, and a business center—but it also retains much of the historic materials and sense of place, including a completely restored Temple with original stained glass, plaster relief columns, and sculptures.

**FINANCING THE PROJECT**

Listed on the National Register of Historic Places since 1996, the building was eligible for the Federal Historic Rehabilitation Tax Credit, which JEM says was a determining factor in making the building’s finances pencil out. The group put around $3.2 million into the building, which was considered “substantial,” meaning that it exceeded the value of the building (which is calculated by the cost of the property minus the value of the land and depreciation).

As with all historic properties—but especially ones as architecturally unique as this one—there were certainly places where retaining historic materials added to the overall cost of construction. JEM estimates that the original cost of construction, in 1911, is the equivalent of $7.5M in today’s dollars, and building the Masonic Temple alone would have been the equivalent of $650,000—and the actual cost of replacement in today’s dollars would be significantly higher than these estimates. To help offset the cost of doing these extensive renovations, the Federal Historic Rehabilitation Tax Credit generated around $632,000 in tax credits for the company—and ultimately represented an investment in Yakima’s downtown.

**WHAT MADE THIS PROJECT SUCCESSFUL?**

- **A vision for the project:** Liz McGree, vice president of JEM Development, noted that her family has had a vision for this project from the beginning—they always knew that it would be the ideal location, and building, for a boutique hotel.
- **Working with the right people:** But, adds Liz, they couldn’t have done this work without the help of professionals from the historic preservation consultants to the city and state historic preservation staff and accountants who helped to ensure that the tax credit financing was in order.
- **Reflective of the community:** Everything about the property reflects the uniqueness of the Yakima Valley, right down to the interior paint colors and themes for each floor of the hotel, which feature names of important agricultural products from the Valley. It’s “knowing your community,” says Liz, that really results in success for these kinds of projects.

Liz McGree of the family-owned JEM development made an intentional decision to keep the ceremonial Masonic Solomon’s temple on the sixth floor as originally built rather than adapt that space into more hotel units. Though in some buildings that might’ve made financial sense, keeping the room intact had the dual benefit of preserving one of the most special parts of the building—and ensuring that the property was eligible to receive Federal Historic Rehabilitation Tax Credits. To qualify for the credit, property owners must meet the Secretary of the Interior’s Standards for Historic Properties, including things like keeping character-defining features. While these kinds of choices can add cost to a project, the tax credit is designed to help offset these costs.

For project details or to connect directly with the development team at JEM, please contact the Washington Trust for Historic Preservation.

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**The HTC in Action**

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total project cost</td>
<td>$3.2 Million</td>
</tr>
<tr>
<td>Direct tax credits taken over 5 years</td>
<td>$632,000 (20% of total project)</td>
</tr>
</tbody>
</table>

**Right:** Hotel Maison in Yakima, WA. Photo by JEM Development.

**Below:** The preserved Solomon’s temple on the sixth floor of Hotel Maison.
**Section 2: Private Financing**

**Introduction**

Much of the redevelopment in Main Street communities throughout Washington state is done by private actors—ranging from minor upgrades by business owners who own their buildings to more extensive adaptive reuse done by development companies.

In this section, we walk through the “typical” process of real estate redevelopment, beginning with the initial development of a proforma, which developers and commercial lenders use to assess a development project’s viability (putting together a real estate LLC, or a legal structure that enables developers to pull together different investors into a project and protect the individuals from liability; and commercial lending, or the requirements for accessing bank loans for property acquisition and construction costs).

**PRIVATE DEVELOPMENT: HOW DOES IT WORK?**

Just like any new construction project, historic rehabilitation efforts usually require up-front capital. Unless a developer (private, public, or nonprofit) has a large amount of cash reserves, they’re likely to borrow to finance the project, with a promise of a future return on investment (ROI), which is provided through cashflow from future incomes.

There are essentially three kinds of capital that can be used to finance a project:

- **Private:** Any capital from individual investors or other private institutions
- **Institutional:** Loans from banks
- **Public:** Tax credits or other incentives

In many projects, developers rely on a combination of all three sources, and we explore the more “traditional” sources of private and institutional funding here (public financing is explored elsewhere in this guide).

**Developing a Proforma**

One of the first, most important steps for any property redevelopment project is to put together a proforma. Proformas allow any developer to understand whether the projected cashflow on a project will exceed the costs over the long term, providing the desired ROI for the investors.

Most commercial lenders will also require a proforma to evaluate and underwrite the project. This first proforma shows the bank how the acquisition and redevelopment will play out, and proves that the debt will be repaid. Ultimately, however, the operating proforma focuses on “post-development activities”: cash flow in through rents, and cash flow out for operating expenses (utilities, property taxes, insurance, basic building maintenance, etc.).

Note: the proformas we discuss in this section assume that the developer will continue to own and manage the property, so they include long-term maintenance and rental income instead of unit sales. Some business models are focusing on buying, re-building, and selling, and while these proformas differ in detail, the basic concept is the same.

**What’s a Proforma?**

A proforma is basically a projected income statement over many years that looks at both income and expenses to assess whether or not a real estate deal will be feasible. The expenses include things like: cost of acquiring and rehabilitating the property, long-term maintenance including future component replacement costs, and property management. The income includes the projected rents, as determined by the local market, and any additional tax benefit programs or other public support.

**Developing a Proforma**

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**A PROFORMA FOR “FIRST AND MAIN LLC”**

To illustrate how developers use proformas to project future cashflow on buildings, imagine a two-story, 10,000 square foot building on the corner of First and Main Street in your community that’s for sale for $400,000. The building has five tenants, each paying $10/SF; but needs around $150,000 of work for hallway improvements, awnings, and bathroom upgrades, leading to a total cost of $550,000. While the building’s five tenants all plan to stay, the LLC will need to plan for a higher vacancy rate to account for potential relocations during construction in the first year.

While a bank is willing to provide a loan for the purchase, First and Main LLC needs $250,000 cash on hand: $100,000 for the down payment (25%), plus $150,000 for repairs in the first few years. The bank will provide a loan of $300,000. First and Main LLC needs to raise $250,000—so they look to raise $25,000 from 10 people.

**What does this mean for the partner who contributed $25,000 (10% of the total initial costs)?** In this scenario, they would receive $1,500 the second year (6% ROI) for year three and beyond, they would receive $4,000/year (16% ROI), for an average 11% ROI over 10 years.

In many real-world scenarios, construction costs might be significantly higher, but they would also allow for increased rents. For example: two tenants decide to leave their 2,000 SF rented spaces in the building, which currently rent for $1,650/month each ($40,000/year total) and a new restaurant expresses interest in taking over these two spaces. The restaurant requires specific upgrades, but is willing to pay $15/SF—allowing First and Main LLC to go to the bank to borrow additional funds for the upgrade by showing they could increase the total annual rent for the entire building to $120,000/year.
**INCOME**

<table>
<thead>
<tr>
<th></th>
<th>$10/SF = $100,000/year</th>
<th>$10/SF = $100,000/year</th>
<th>$10/SF = $100,000/year</th>
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<tbody>
<tr>
<td>Rental income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incentive programs (20% Federal Historic Tax Credit, taken over 5 years)</td>
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<td>$10,000</td>
<td>$10,000</td>
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<tr>
<td>Total income</td>
<td>$100,000</td>
<td>$110,000</td>
<td>$110,000</td>
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**EXPENSES**

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<th>Year 1:</th>
<th>Year 2:</th>
<th>Year 3:</th>
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<tr>
<td>Purchase price ($400K total)</td>
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<td>(N/A)</td>
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<tr>
<td>Debt servicing (principal and interest) on a $300K loan (assumes 4% interest rate and 25-year term)</td>
<td>$20,000</td>
<td>$20,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Construction and permitting costs ($250,000 total)</td>
<td>$125,000</td>
<td>$125,000</td>
<td>(N/A)</td>
</tr>
<tr>
<td>Site management/ operating expenses/ taxes:</td>
<td>$3.30/SF = $30,000</td>
<td>$3.30/SF = $30,000</td>
<td>$3.30/SF = $30,000</td>
</tr>
<tr>
<td>Vacancy rate</td>
<td>25% vacancy rate:</td>
<td>$25,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>Total costs</td>
<td>Total costs, year 1:</td>
<td>$300,000</td>
<td>Total costs, year 2:</td>
</tr>
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</table>

**NET INCOME**

<table>
<thead>
<tr>
<th></th>
<th>$200,000</th>
<th>$-90,000</th>
<th>$50,000</th>
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<tbody>
<tr>
<td>Net income, per investor</td>
<td>N/A</td>
<td>N/A</td>
<td>$5,000</td>
</tr>
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</table>

**A TYPICAL PROFORMA—WITH TAX INCENTIVES**

Imagine a scenario in which there were unanticipated construction costs, bringing the total construction costs from $150,000 to $250,000, and requiring the work to continue over two years, keeping the vacancy rate at 25%. If the value of the land itself were $150,000, then $250,000 in repairs would mean that this work would meet the substantial improvement threshold required by the Federal Historic Rehabilitation Tax Credit.

Such a scenario would require greater cash on hand ($350,000: $100,000 down and $250,000 in construction costs) to cover a total project cost of $650,000. For each 10% investor who put in $35,000, they would receive $5,000/year for years 3 through 8 (14% ROI per year), for an average ROI of 11% over 10 years.

Without the tax credit incentive, this project wouldn't pay back investors' initial investment in the project until after year 10. It would still be visible without the tax credit (a 9% ROI, averaged over 11 years), but on the lower end of what many investors or developers would be willing to take on. And, for many other projects with even closer margins, public incentives can make the difference between projects being viable or not. For this reason, it's useful to include public incentives in the proforma early in the project, to identify whether historic documentation or materials may be required.

**ADAPTING A PROFORMA TO THE MARKET**

Often, developers purchase a property with an intention to use the space in a specific way, but they adapt their approach based on changes in the local rental market:

For example, one group of investors decided to acquire an aging and vacant historic building in SW Washington. Structurally, the building was solid, but needed quite a bit of modernizing to bring it back to life. The purchase price was $325,000, and the team put $75,000 down and took out a loan for the remainder. Initially, the objective was to find an antique dealer to fill up the 15,000 square foot building at a moderate lease rate. The business plan was to raise $400,000 in investor capital, out of which the down payment would be made, reserving $325,000 for capital improvements to the building (roof, HVAC systems, electrical & restroom upgrades).

While the partners continued to search for an antique dealer, other potential tenants started inquiring about office space. Realizing that demand was very strong for office space, the partners went back to the drawing board and determined that lease rates for offices were $12 to $15 per square foot, while open antique type space was only half that at $6 to $9 per square foot. The drawback was the cost to build out the office space was much more expensive.

The team developed a new proforma and sat down with a commercial bank to make a plan. Ultimately, realizing the potential for much higher cashflow from rents and without needing any additional private capital, the bank refinanced the project, paid the original sellers off, and provided an additional $600,000 in financing. In total, the total renovation cost $1.2 million – three times as much as the team initially projected.

**THE FEDERAL HISTORIC PRESERVATION TAX CREDIT BENEFIT**

Because the overall rehabilitation cost was higher, the project also met the threshold for the Federal Historic Tax Credit. Because approximately $1 million of the total cost was defined as “qualified expenditures” for Historic Tax credit purposes, this translated into $200,000 in tax credits (20%) for the project (and awarded to the partners as per their ownership share—see section 1 for more details on this program). That figure represents a 50% return on their original investment of $400,000 after about 3 years.
Putting Together a Real Estate LLC

As part of their effort to raise capital in the beginning stages of a project, many small and mid-size developers create a separate LLC to invest in a specific development project. The LLC creates a legal ownership structure for the duration of the project, including acquisition, rehabilitation, management, and sale. LLCs allow multiple investors to own a building, protecting them legally and enabling a clear membership structure that defines the rights and obligations of the members: usually, one or two members (often the one leading the development) will serve as the “managing member,” while others will serve only an investment role.

Developers typically look at the cash-on-cash ROI when developing a building proforma to share with investors: how much, per dollar contributed, an investor can expect to get back. In most projects, the annual return will be lowest (or nonexistent) in the first few years, especially if major rehabilitation is required before tenants can move in. Most developers are looking for a 10 to 15% annual return, though this may not be possible until the third or fourth year of a project.

Under a 15% return scenario, an investor could expect to earn back their initial investment in under 10 years—but most investors are looking not only at their cashflow, but at their overall equity in the building. Ideally, most buildings are simultaneously increasing 3 to 5% in value per year; after those 10 years, the $400,000 building would be worth an additional $125,000-250,000 (or $525,000-650,000 total); the total remaining on the mortgage would be a little over $200,000—leaving the total equity in the building to be between $325,000-450,000 (and this doesn’t even factor in the increase in value produced by the additional investment of $150,000 in building improvements in the first year).

Rory also points out that LLCs are also a good way to break down large projects into smaller, more manageable fundraising chunks. For example, they could include an attorney, a contractor, or someone with ties to local entrepreneurs who can help find tenants.

Institutional Financing: Commercial Lending

After developing a proforma and attracting private funding, most developers approach a commercial lender. Just like getting approval on a home loan, a lender will require paperwork, including a detailed appraisal and market study (which will include information about the condition of the building itself; comparable properties; and projected rents for the local rental market), the proforma, and documentation of private financing through the real estate LLC. Unlike getting a home loan, commercial lenders typically require 25% down and are often on a 25-year amortization schedule.

Rory also notes that it’s essential to build a relationship with a trusted lender—lenders are there to help assess your proforma and ensure that your plan for the building is sound; they can also help you to access more capital for building rehabilitation if market conditions change.
Case Study: Metropolitan Building — Wenatchee, WA

HISTORY: THE ENTRANCE TO DOWNTOWN

Wenatchee’s Metropolitan Building (formerly Dore), built in 1929, sits at the north edge of the Downtown Wenatchee Historic District, a National Register district that encompasses around 9 blocks and almost 100 buildings. The three-story building is located at the entrance point of downtown, where N. Wenatchee Avenue transitions from a cul-de-sac lane thoroughfare to a denser cluster of small businesses and restaurants.

Like many small and mid-sized cities in Washington, much of Wenatchee’s downtown’s development was spurred by railroad construction in the late 19th century. Wenatchee was not significantly impacted by the federal urban renewal program in the 1950s and 60s, leaving many of these architectural gems intact. Yet this was also due to decades of deferred maintenance and “functional obsolescence;” when top floors were either removed or abandoned, as was the case with the Metropolitan.

FINANCING THE PROJECT

The cost of the 36,000 SF building was $850,000, and Rory and team knew that the long-term vacancy on the upper floors meant that maintenance costs would be substantial. Rory looked to raise around $500,000. $212,000 for the down payment, and the rest to cover the anticipated repair costs. He created a new LLC to bring in a group of investors, and the group of about a dozen partners each invested a range of $25,000 to $100,000 to the project. They also worked with a local bank to take out a commercial loan to finance the remainder of the purchase price.

Rory also applied for and received Special Valuation, a program that allows municipalities to provide a break on local property taxes for 10 years to historic buildings, provided that investors spend at least 25% of the building’s appraised value. Because Rory and team put over $750,000 into the project, it was eligible for Special Valuation, reducing the annual property tax liability by roughly 75%. (You can learn more about Special Valuation in section 1.)

Rory also considered the Federal Historic Preservation Tax Credit, but ultimately determined that it was not the best approach for the project. For one thing, Goodfellows wanted an open floor plan on the second floor, which required significant modification that might not have met NPS standards. In addition, the HTC requires owners to retain ownership for 5 years after completing the project, and the sale to Goodfellows would have required him to reduce the overall credit, to only include the bottom floor.

The overall financing was helped by the sale to Goodfellows, which brought in additional cash, and by the quality of tenants who expressed interest in the building. In the initial proforma, Rory estimated that he could rent the building for around $10/SF. But as he began to develop plans for the building and work with tenants (including the Wenatchee Valley Chamber of Commerce Visitor Center, ideal for its location at the gateway downtown, and a number of other uses that are appealing to visitors and locals alike: an antique store, restaurant, and wine tasting rooms.

WHAT MADE THIS PROJECT SUCCESSFUL?

Rory points to several factors that made this project successful, which he often employs on other projects:

- **Tenant mix:** Rory works to create a good mix of tenants that can complement one another. The Metropolitan Building’s first floor now houses the Wenatchee Valley Chamber of Commerce Visitor Center, ideal for its location at the gateway downtown, and a number of

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Section 3: Public Projects

Introduction

Though their role in main street property development is often invisible, local governments in Washington play an essential role in shaping policy, directing funding, managing public assets like streets, sidewalks, and parks; and occasionally acquiring and rehabilitating downtown properties. Local governments have an important role to play in this work—they have the ability to raise capital in ways that aren’t available to the private and nonprofit sectors, including issuing bonds and levying taxes, and also often distribute federal funding at the local level in the form of programs like the Community Development Block Grant (see appendix for more information).

This section features a funding source available to public entities seeking to rehabilitate historic buildings, the Heritage Capital Project grant, as well as a legal/institutional tool available to many local communities, Public Development Authorities, which has potential to support the redevelopment of historic properties in downtowns.

Heritage Capital Project Grants

WHAT IS IT?
The Heritage Capital Project grant program is made available by the Washington Legislature to support organizations that preserve and interpret Washington’s history and heritage. Designed to support capital projects (typically building construction or rehabilitation) and awarded on a two-year cycle, the grant can range from $10,000 to $100,000 requiring a 2:1 funding match and can only be used as reimbursement for costs accrued during the two years the funds are available.

Because the funding is ultimately allocated by the Legislature in the State’s capital budget, the Washington State Historical Society (WSHS), which administers the grant program, develops a prioritized list of projects to bring before legislators each year—so it’s worth starting the conversation early with WSHS.

Eligibility Facts

Administer(s): Washington State Historical Society
Eligible organizations: Local governments, tribal governments, 501(c)(3) nonprofits registered in Washington, and ports and public development authorities with full, long-term control of the property
Where: Statewide
When: Biannually, typically with part I of applications due in the spring of even-numbered years

Eligible projects: Capital projects that provide public access to history including purchase, restoration and/or preservation of historic buildings and more (see details below)

Ineligible projects: Projects completed prior to the start of the biennium for which funding is made, projects applying for a Building for the Arts grant or Building for Community grant from the Department of Commerce during the same biennium

Contact: David Schingeck, Capital Projects Coordinator (Heritage Capital Projects), 253-798-5903, david.schingeck@wshs.wa.gov, https://www.washingtonhistory.org/heritage-resources/heritage-capital-projects/

AM I ELIGIBLE?
Grants are available for a wide variety of activities, not solely rehabilitation of historic buildings—which means your development project will be competing with diverse projects, from archaeological sites to art installations. However, the grant committee reviews applications based on their strength in connecting the public with history. Eligible projects include:

◊ Construction of new heritage facilities, improvements to existing heritage facilities, or acquisition of unimproved property for the purpose of construction of a new heritage facility
◊ Purchase, restoration, and/or preservation of historic buildings and structures
◊ Interior improvement of facilities used for hosting exhibits, programs, and preservation activities
◊ Construction-related design, architectural, and engineering expenses

WHAT ARE MY RESPONSIBILITIES?
The overarching responsibility of a Heritage Capital Project grant is stewardship of public funds, and all applicants must participate in open and public meetings as part of the review process and, if awarded, must maintain record-keeping for state reporting and reimbursement. Applicants should also be aware there is a 2 to 1 match required, meaning for every grant dollar the applicant must match it with $2 in other funding sources (only half of that match may be in-kind). Additionally, as a recipient of state funding, applicants should plan for:

◊ Consultation with tribes
◊ Project reviews by the Washington Department of Archaeology and Historic Preservation
◊ Compliance with the Americans with Disabilities Act, prevailing wage requirements, and standards for environmental sustainability
◊ Plans to maintain ownership of the building for at least 13 years after receiving funding

What else do owners need to know about applying to Heritage Capital Project grants?
These state funds are competitive and require a good deal of planning and preparation to ensure a successful application, especially because the funding is only released biannually. The two-part application process generally starts over a year before contracting begins. The first step is typically a screening letter due biannually in the Spring, with a select group of applicants invited to complete the longer application later in the summer.

Public Development Authorities

WHAT ARE THEY?
Public development authorities (PDAs) are essentially publicly owned corporations with a specific focus or mission: there are PDAs focused on building housing (public housing authorities), managing a specific facility or neighborhood (like the Pike Place Market PDA), or catalyzing a specific kind of project (like Historic Seattle, a preservation PDA).

Under Washington law (RCW 35.21.730-750), cities, towns, and counties can form PDAs to distribute federal grants or local programs, enhance government services, or carry out specific tasks to improve general living conditions. Communities establish PDAs for a variety of reasons; however, many experts recommend creating a PDA only for endeavors that a city or county would not want to undertake itself, including things like developing and operating a specific piece of real estate or catalyzing investment in a particular neighborhood. Although PDAs are able to take actions a city, town, or county government could not, state law requires the local government to control and oversee the PDAs’ operation and funds in order to ensure that the PDA is accomplishing its purposes.

Contact:
David Schingeck, Capital Projects Coordinator (Heritage Capital Projects), 253-798-5903, david.schingeck@wshs.wa.gov, https://www.washingtonhistory.org/heritage-resources/heritage-capital-projects/
WHAT MAKES PDAS DIFFERENT THAN OTHER KINDS OF PUBLIC DEVELOPERS?

PDAs have been called the ‘developers of last resort’ because they are often able to take on real estate projects that private investors would not—and they also often have greater access to capital than municipal governments or nonprofits. They can act in the public interest even if it does not result in profit, and are often better positioned to undertake building renovations that would not be financially feasible for the private market.

Like local governments, PDAs are able to issue bonds and use commercial lending to finance projects. Unlike local governments, they are also eligible for the Federal Historic Rehabilitation Tax Credit (see section 1), and can sometimes borrow at lower rates than those in the private sector. In addition, they are typically able to more easily acquire and manage real estate owned by other local government entities, including parks or school districts.

HOW DO I KNOW IF A PDA IS THE RIGHT TOOL FOR ME?

According to Kathleen Brooker, the former executive director at Historic Seattle (a PDA), and Jeff Murdock, the Advocacy and Engagement Manager at Historic Seattle, here are some things to consider if you’re wondering if PDAs could help with a development project in your community:

◊ **Read up on the benefits of PDAs:** Many city administrators may not be familiar with the benefits of PDAs and their legal structure, which allows for certain kinds of powers when it comes to property acquisition and redevelopment. Sometimes, advocacy is required to help local governments realize why PDAs are uniquely suited to support specific initiatives, and ultimately, most major PDA actions will need to be approved by the local City Council.

◊ **Identify existing PDAs in your community:** While PDAs are powerful tools for local property development, they are legally complex and challenging to establish. However, many communities have a PDA (or several), like the industrial park or public housing authority, who might be willing to be a strategic partner on tough-to-sell historic and/or downtown buildings.

◊ **Develop the internal capacity:** If you’re thinking about working with a PDA, Kathleen suggests inviting a real estate or tax attorney to sit on your board. Having someone who can provide guidance around real estate financing, including tax credits and other forms of low-interest lending, is essential. All real estate deals are complex—and that’s even more true for PDAs.
Case Study: 
The Geddis Building — Ellensburg, WA

ADDRESSING DOWNTOWN VACANCIES THROUGH PUBLIC ACTION

When Carolyn Honeycutt moved to Ellensburg in 2010 to head up the town’s Main Street organization, one of the first things she noticed wasn’t the iconic Italianate tourelle on the Davidson Building, an 1888 icon that sits on one of downtown Ellensburg’s most prominent corners. Instead, it was the two-story building that was mostly vacant across the street. At the time, the historic Geddis Building, built in 1889, had a landlord whose unorthodox approach had begun to create problems for surrounding business owners. All but one of the storefronts in the half-block Geddis Building were empty, creating a vacuum in the heart of the downtown.

As Honeycutt settled into her new role, she convened a conversation with City leadership about how to address the issue of central downtown vacancies, especially centered on the Geddis. The Ellensburg Business Development Authority (EBDA, now known as CenterFuse), the City’s public development authority, created a subcommittee to address the issue, which reflected a “who’s who” of the city, including the Mayor, City Manager, Chamber of Commerce members, and other community leaders. As the group met, they determined that one of the only ways to address the issue would be to convince the owner to sell. And, one of the most powerful tools at their disposal would be for the City to do the acquisition, ensuring that they would have control over how the space would be programmed.

After spending over a year in negotiations with the owner, the group was finally able to negotiate a purchase with the owner for around $1.2M. Though the subcommittee was convened by the EBDA, the City was ultimately the entity to make the purchase, requiring approval by City Council.

WHAT MADE THIS PROJECT SUCCESSFUL?

◊ Changing the conversation: Using her unique role as Main Street director, Honeycutt said that she was able to help change the conversation around downtown vacancies, bringing this issue to the forefront and helping City leadership to see that addressing this problem was within their control. She also helped to turn out business owners to speak in support of the building acquisition to City Council.

◊ Engaging leadership and reintroducing the building to the community: After the City acquired the building, the subcommittee realized that one of the first steps would be to reintroduce the building to the community. They convinced City leadership—the City manager, the administrators of the local university, the leaders of the Chamber of Commerce, Rotarians, and 20 more—to roll up their sleeves for the initial cleanout of the building. Then, they held a yard sale with all of the items that had been left in the building, and gave tours to hundreds of residents.

◊ Starting small: The EBDA subcommittee also began to develop a vision for programming the space, and the City made basic upgrades to building essentials, like HVAC and windows. Because most of the businesses that moved in were specialty retail or restaurant/café uses, many of them got an early discount on rent to make tenant improvements to their spaces, which also allowed the City to limit the amount of construction funding they’d be on the hook for. Today, the building’s 8 storefronts have a mix of retail uses, including a café, clothing shop, barber shop, and wine tasting room.

FINANCING THE PROJECT

The City structured the Geddis Building purchase to work as a loan, with the funds coming from the City’s vehicle replacement fund (managed by the public works department). The loan structure included interest paid back into the fund, as well as an interlocal agreement to pay the EBDA for building management while it was owned by the City.

After owning the building for over two years and supporting building upgrades, retail space programming, and community development, the City decided to sell the building back to the private sector, allowing them to repay the loan.

By the numbers, the City took out a $1.4M loan from the vehicle replacement fund. They purchased the building in late 2012 for $1.2M and spent $288,000 on improvements, plus management costs. By the end of 2014 they had earned back $144,000 in rent, leaving a net cost of $1.36M. The building was sold to the private sector for just under the original asking price, essentially allowing the City to break even.
Main Street Guide For Property Development

Section 4: Nonprofit Projects

Introduction

Main Street organizations play many important roles in downtown property development: connecting property owners with funding opportunities, helping to program spaces and locate future tenants, promoting new buildings, and typically requiring cash on hand for the maintenance of a property. This includes things like crowdsourcing from the community; large individual donations or grant applications to local foundations for specific projects; or the donation of in-kind technical services from engineers, architects, or contractors. For instance, nonprofits are eligible for large sources of grant support, including the Heritage Capital Projects grant (see section 2), or smaller sources like the Valerie Sivinski Fund grant program.

For some specific uses often carried out by nonprofit developers, including affordable housing, there are particular local and state funding sources available. These are not explored in detail in this guide, but you can learn more about funding sources by accessing the Low Income Housing Tax Credit program, in the appendix.

Some nonprofits have also successfully used lobbying efforts at the state level to secure funding for specific building acquisition. Typically, when successful, these efforts are the result of coalitions of multiple advocacy organizations (and often local political representatives) rallying to save one iconic building or structure that's representative of larger community goals or aspirations.

This section focuses on one funding source that can support nonprofit development efforts: gifts of real estate from private individuals or foundations. And, as the case study of the Wallis Drug building in Murray, Kentucky shows, nonprofits are also able to access commercial loans to help finance both acquisition and rehabilitation of historic properties. You can learn more about the process of putting together a proforma for commercial lending in section 2.

Gifts of Real Estate

WHAT IS IT?

It is not uncommon for property owners—including individuals, real estate LLCs, and private foundations—to approach organizations with a gift of real estate. These are often exciting offers, but there are a range of considerations that nonprofits should consider.

When accepting a gift of real estate, nonprofits often have the option of keeping or selling the property. Long-term management of a property can provide cashflow in the form of monthly rent, which can be incorporated into an organization’s annual budget. However, long-term property management may not be appealing to all organizations. And typically requires cash on hand for the maintenance issues that are bound to arise, as well as staff capacity for managing the asset.

If a nonprofit does not plan to be in a long-term management position, nonprofits may choose to sell the building. Even if they plan to sell the building back to a private owner, nonprofits do have opportunities to have control over future building usage, including putting specific deed restrictions in place to prohibit certain kinds of uses in the building, placing the building on the local historic register, or placing an easement on the property (see the description of easements later in this section). While these actions are often important as part of meeting the organization’s mission, it’s also worth factoring in the impact of deed restrictions on the building's resale value.

Whether a nonprofit plans to keep or sell a building, like all other details of the property transfer, should be worked out ahead of time with the donor. Donors often have very specific desires for a building, which may make the sale—however appealing on its surface—inevitable for the organization.

WHAT’S THE BENEFIT TO THE PROPERTY OWNER?

In addition to their sense of goodwill or desire to support an organization’s mission, there can be a variety of benefits that lead donors to want to donate properties. Most of Washington’s Main Street organizations are nonprofits who hold a 501(c)3 determination from the IRS, which means that donations—including donations of real estate—are tax deductible, reducing the donor's overall tax liability.

Particularly if the property was purchased a long time ago or has acquired significant value since it was purchased, the donor might be on the hook for a large number of capital gains taxes, making the tax deduction a more appealing option. (In some scenarios, per IRS rules, donor can carry forward the value of their donation for 5 years.) In other options, like a Charitable Remainder Trust, the property is donated to a nonprofit to achieve tax benefits, but requires an annual payout to beneficiaries for a predetermined period of time.

WHAT DO NONPROFITS NEED TO KNOW ABOUT ACCEPTING GIFTS OF REAL ESTATE?

According to Chris Moore, the executive director of the Washington Trust for Historic Preservation, which manages Washington Main Street, nonprofits should consider the following best practices when faced with a real estate gift opportunity:

- Develop a policy with your board: It’s a good idea for organizations who are interested in acquiring real estate to develop a policy governing their goals and parameters for accepting property donations. This policy might also pertain to considerations of how an organization will address future conflict of interest issues that arise—for instance, if a city council is considering local policy changes that benefit property owners, the organization would need to consider their potential advocacy for the policy change.

- Confirm mission match: Nonprofits should make sure that any property acquisition aligns with their mission. For instance, Main Street organizations would not likely want to acquire property far outside of downtown, and preservation organizations would not likely want to acquire a brand new building.

- Do your due diligence: As with any property, nonprofits should do their homework to ensure that these are not title issues like liens or major debt that the organization would be on the hook for; conduct a professional appraisal to verify the property’s value; assess the property’s physical condition to ensure the organization could cover the cost of repairs and future maintenance; and, if the organization is planning to manage the building, that the proforma for rents and cashflow make it viable.

Eligibility Facts

Administrator(s): Real estate gift transactions are typically worked out directly between the donor and recipient, and governed by a legal contract that accompanies the deed transfer.

Eligible organizations: To provide tax benefits to the donor, organizations who receive donations from private individuals or foundations must be designated as 501(c)3 by the IRS.

Where: No restrictions

Eligible projects: The restrictions for the end use of a property are typically developed in the transfer from the donor to recipient.

WHAT DOES THE PROCESS LOOK LIKE?

If a nonprofit determines that they want to move forward with the property transfer, the organization should work with a real estate attorney to develop a contract that governs the future use or sale of the building. This document would also address the requirements of the organization to ensure the donor can achieve all of their tax benefits and whether an endowment will be included as part of the transfer.
Case Study: Wallis Drug Building — Murray, KY

**TAKING A BIG RISK FOR DOWNTOWN**

In 2005, Deana Wright, the director of Murray, KY’s Main Street program, approached a local bank to take out a loan for $120,000 to purchase the Wallis Drug Building. Murray is a college town of about 20,000 people, nestled along the Tennessee border and home to Murray State University, and the building sits on one of Murray’s most visible streets around the central square, which houses the iconic 1913 Classical revival courthouse building. The Main Street organization wanted to be sure that they had a say in the future of this important building, and the best way seemed to be to buy it themselves. The problem? The organization only had $650 in the bank.

Several of Murray’s other prominent historic downtown buildings are used as churches, and the town itself boasts more than 70 church congregations; many of them in storefronts throughout the downtown. Like all Main Street organizations, the organization was working to diversify building uses and bring people downtown. So when the Main Street program heard that another church was thinking about purchasing the building, they realized that this was an optimal place to enhance street vitality with new retail mix. Luckily, the local bank was focused on supporting local projects, and the organization was able to put together a proforma that proved future cashflow would allow them to repay the loan.

**FINANCING THE PROJECT**

The building, which cost a total of $123,000, has two storefronts divided by a stairwell to upper-floor offices. However, it needed extensive demolition and rehabilitation work. To pay for construction, the organization got a loan for $46,000 (using a local, low-interest loan pool) and a grant for $75,000 through the State of Kentucky. After completing one of the storefronts for a restaurant, the building started to generate cashflow, bringing in additional funds to complete renovations on the other side, which also became a restaurant.

**WHAT MADE THIS PROJECT SUCCESSFUL?**

- **Drawing on your network.** To get this project across the finish line, the organization relied heavily on the support of their members: engineers, electricians, and environmental professionals who sat on the organization’s board offered in-kind support. At one point, when the cost of renovation proved higher than they had initially expected, they took out a personal loan from a board member (which was paid back promptly)! These kinds of efforts take real support, and in the word of one of the Murray Main Street board members, “nothing good is ever easy.

- **Taking it one step at a time.** Like so many development projects, this one was only possible by breaking it down into different phases. Rentals from the first restaurant provided cashflow for completing other building phases. The second floor, which basically hadn’t been occupied since the 1960s, was part of the initial plans for renovation. But when this proved more expensive, the organization was able to put this on the back burner as equity in the building grew and cashflow increased. After owning the building for 15 years, they are now putting together a proforma to take out a loan and finally finish the upstairs apartments.

- **Programming the space.** By serving as continuous owners, the organization has been able to program the space in a way that is in accordance with their organization’s vision for downtown. For instance, of the three restaurants in downtown, two of them are in this building. Being a landlord is not for the faint of heart, says Deana Wright, and it may require you to adjust the skillset in your organization—but it also can give you greater control over the future of your downtown. And, at a time when funding for nonprofits can feel uncertain, it also helps to provide continuous, self-sufficient support.

- **Building expertise.** Since their work on the Wallis Drug building, Murray Main Street has had a direct hand in the rehabilitation in an additional two buildings, both of them donated to the organizations as gifts. One of the buildings, an 8,000 square foot property in another part of downtown, was donated when a partnership split and assets needed to be divided. The Main Street program then sold it to a developer for $25,000, but incorporated deed restrictions to ensure that the end use was consistent with their organization’s vision for downtown—and it now has 3 businesses and 8 apartments upstairs. These kinds of opportunities, says Deana Wright, may not happen until you build your expertise as an organization with capacity and competency in downtown property development.
Appendix: Additional Financing Tools and Funding Sources

1031 Exchange
Building Communities Fund
Building for the Arts
Community Development Block Grant
Historic Theaters Grant Program
Low-Income Housing Tax Credit
Multifamily 80/20 Housing Bonds
New Market Tax Credits
Nonprofit Facilities Program
NPS Facade grants
Opportunity Zones
Preservation Easements
Rural Development Loan Assistance Program
Valerie Sivinski Fund

The financing sources included in this document are available throughout Washington state, but this list is not exhaustive, and your local community may have additional funding sources available. Connecting with your local Main Street organization or municipal government staff early in the process is a must!

In addition, www.preservationdirectory.org and the Department of Archaeology and Historic Preservation (www.dahp.wa.gov/grants) also maintain lists of additional funding sources for historic property redevelopment.

1031 EXCHANGE
Description: A 1031 Exchange is a rule in the tax code that allows an investor to avoid paying capital gains taxes on the sale of a property if they reinvest the proceeds in another property of equal or greater value. This tool can support the reinvestment of profits back into other Main Street properties.
Administrator(s): IRS
Eligible organizations: Private entities (owners and developers) who owe capital gains taxes on the sale of properties. Proceeds from the sale must go through a qualified intermediary (an entity that facilitates the 1031 Exchange by holding the funds and transferring them to the seller of the replacement property).
Eligible projects: Properties of equal or greater value to the property sold, purchased within 45 days, and owned for at least two years after purchase.

BUILDING COMMUNITIES FUND
Description: The Building Communities Fund Program awards state grants to nonprofit, community-based organizations to defray up to 25% or more of eligible capital costs to acquire, construct, or rehabilitate nonresidential community and social service centers.
Administrator(s): Washington State Department of Commerce, Building Communities Fund (BCF) Advisory Board

Eligible organizations: Nonprofits (501(c)(3) designation). Applicant projects must be located in a “distressed community” or serve a substantial number of low income or disadvantaged persons
Eligible projects: Non-residential community and social service centers, acquisition, capital construction and/or rehabilitation projects
Ineligible projects: Residential construction, operating costs are ineligible
Contact: 360-725-3075; capprograms@commerce.wa.gov; https://www.commerce.wa.gov/building-infrastructure/capital-facilities/building-communities-fund/

BUILDING FOR THE ARTS
Description: This program awards state grants to nonprofit, community-based organizations to defray up to 33% of eligible capital costs for the acquisition and major new construction or renovation arts and cultural facilities. This is a reimbursable grant, and the maximum grant is $2 million.
Administrator(s): Washington State Department of Commerce
Eligible organizations: Tribes and nonprofits registered in Washington state
Eligible projects: The construction, renovation, or acquisition of facilities that focus on the active interpretation, performance, or exhibition of aesthetic traditions, practices, or works of art that characterize cultural values
Ineligible projects: Historical museums and community centers
Contact: 360-725-3075; capprograms@commerce.wa.gov; https://www.commerce.wa.gov/building-infrastructure/capital-facilities/building-for-the-arts/

COMMUNITY DEVELOPMENT BLOCK GRANT
Description: For planning or construction of public infrastructure, community facilities, affordable housing, and economic development projects.
Administrator(s): Washington State Department of Commerce, Local Governments, US Department of Housing and Urban Development
Eligible organizations: Small, rural cities/towns and counties that are not entitled to receive CDBG funds directly from the U.S. Department of Housing and Urban Development (HUD) can apply for a CDBG grant via the State program. Local government entities apply for the funding; can serve as pass-through to nonprofit or private entities for specific projects.
Eligible projects: Public facilities (including streets), community facilities (such as community centers, fire stations, homeless shelters, and child care facilities), affordable housing and housing rehabilitation, and economic development, such as microenterprise assistance and public infrastructure projects that principally benefit low- and moderate-income persons.
Ineligible projects: Government executive and administrative buildings, facility operations and maintenance, and new housing construction
Contact: 360-725-3018; kaaren.roe@commerce.wa.gov; https://www.commerce.wa.gov/serving-communities/community-development-block-grants/
**Historic Theater Capital Grant Program**

**Description:** Funding is provided for grants to restore and rehabilitate historic theaters statewide.

**Administrator(s):** Washington State Department of Archaeology and Historic Preservation, managed by Washington Trust for Historic Preservation

**Eligible organizations:** Non-profit and privately owned properties both eligible, but would need a public benefit element and easement.

**Eligible projects:** Historic theaters listed (or eligible and listed by the end of the project) on the Washington Heritage Register or National Register of Historic Places (usually over 50 years old). Property must be an operating theater or the project restores theater back into operation. Property must be originally built as a theater (not building later turned into theater).

**Contact:** 360-870-6383; marivic.quintanilla@dahp.wa.gov; https://ofm.wa.gov/budget/state-budgets/gov-inslee-proposed-2021-23-budgets/2021-31-capital-olan-agency-capital-project-detail/355

**Low-income Housing Tax Credit Program**

**Description:** The Commission's Low-Income Housing Tax Credit Program (LIHTC) allocates federal income tax credits to developers to encourage the construction and rehabilitation of affordable multifamily housing. In exchange for cash-up-front, the investor receives a tax credit (dollar for dollar reduction in its federal tax liability) each year for a period of ten years.

**Administrator(s):** Washington State Housing Finance Commission

**Eligible organizations:** LLCs and limited partnerships (including nonprofit developers and some government entities via a syndication process).

**Eligible projects:** New construction, or acquisition and rehabilitation of rental housing

**Ineligible projects:** Projects with program participation requirements (such as “clean and sober” programs); facilities such as nursing homes or dormitories

**Contact:** 206-464-7139; AskUsMHCF@wshfc.org; https://www.wshfc.org

**Multifamily 80/20 Housing Bonds**

**Description:** Tax-exempt bonds, also known as private activity bonds, are bonds where the interest earned by the bondholder(s) is exempt from federal taxation. These bonds are used by for-profit developers to borrow funds for construction and other costs of developing affordable housing. Because the interest is tax exempt, the debt has lower interest rates than traditional financing. In return, the developer must set aside a certain percentage of units for low-income residents. If more than 50% of a project is financed with tax-exempt Multifamily Bonds, the project may access the 4% Low Income Housing Tax Credit (LIHTC) without competing for an allocation of these tax credits.

**Administrator(s):** Washington State Housing Finance Commission

**Eligible organizations:** Private owners or development LLCs

**Eligible projects:** Multifamily rental housing, assisted living with full living facilities, and single-room occupancy housing

**Ineligible projects:** Hotels or motels, dormitories, nursing homes, and manufactured homes (in most cases)

**Contact:** 206-287-4414; dan.schilling@wshfc.org; https://www.wshfc.org

**New Market Tax Credit Program**

**Description:** Through the New Market Tax Credit (NMTC) Program, the Community Development Financial Institutions Fund allocates tax credit authority to Community Development Entities (CDEs) through a competitive application process. CDEs offer tax credits to private investors in exchange for equity, and they use the capital from those equity investments to make loans and investments to businesses operating in low-income communities. The overall benefit to the investor is a 39% tax credit, taken over 7 years.

**Administrator(s):** Community Development Financial Institutions Fund (under the US Dept of the Treasury) and the IRS

**Eligible organizations:** Community Development Entities receive and pass through NMTC funds. CDE designation is available through the US Department of the Treasury to legal entities (typically community development financial institutions) with a mission of serving low income communities.

**Where:** Census-designated low income community

**Eligible projects:** Existing businesses (manufacturers, retailers, grocery stores), development or rehabilitation of commercial, industrial, retail, and mixed-use real estate properties, development or rehabilitation of community facilities such as charter schools or health care centers, and development or rehabilitation of for-sale housing units all in low-income communities.

**Ineligible projects:** Projects with program participation requirements (such as “clean and sober” programs); facilities such as nursing homes or dormitories

**Ineligible projects:** Residential rental properties (where 80% or more of gross rental income is from dwelling units, country clubs, race tracks, gaming establishments)

**Contact:** https://www.cdfifund.gov/programs-training/Programs/new-markets-tax-credit/Pages/default.aspx

**Nonprofit Facilities Program**

**Description:** The Nonprofit Facilities Program is a loan that aligns with a capital campaign. Often, a capital campaign is not enough to cover the total cost of a project—particularly costs related to construction and capital improvements. A bond-backed loan can help reach goals sooner and more efficiently.

**Administrator(s):** Washington State Housing Finance Commission

**Eligible organizations:** Nonprofits that own 100% of the project, or the portion that is financed with tax-exempt bonds

**Who:** Nonprofits (501(c)(3))

**Eligible projects:** Nonprofits can use tax-exempt bonds to finance land, buildings, and equipment that meet the nonprofit’s stated 501(c)(3) mission.

**Ineligible projects:** Religious organizations, or health care or education projects that could be financed under the Washington Health Care Facilities Authority or Washington Higher Education Facilities Authority.

**Contact:** 206-287-4404; keri.williams@wshfc.org; https://www.wshfc.org

**Opportunity Zones**

**Description:** Designated under the tax reform bill of 2017, Opportunity Zones are a form of tax incentive that allow taxpayers to invest in Qualified Opportunity Funds in exchange for a deferral of their capital gains taxes. Ninety percent of these funds must then be invested into a “Qualified Opportunity Zone Property,” which must be located in an economically distressed area.

**Administrator:** IRS

**Eligible organizations:** Entities (typically developers or LLCs) must become “Qualified Opportunity Funds” to provide Opportunity Zone tax benefits to their investors. Qualified Opportunity Funds must hold at least 90% of their assets in an Opportunity Zone Project.
Where: “Economically distressed” communities, as defined by Opportunity Zone legislation. See a map here: https://nthp.maps.arcgis.com/apps/webappviewer/index.html?id=d6c30dd8c284c7789f6815ba76b629

Eligible projects: Projects must be ‘substantially improved’ through the Opportunity Zone funding over a 30-month period.

Ineligible projects: Projects outside of federally designated Opportunity Zones, or those who do not meet the ‘substantial improvement’ basis.

Contact: https://www.irs.gov/credits-deductions/businesses/opportunity-zones

PRESERVATION EASEMENTS

Description: A preservation easement is a legal agreement that protects a historic property in perpetuity. By developing an easement, a property owner agrees to restrict future changes to the historic property and site by granting the development rights to an easement holder (usually a nonprofit or government entity). In exchange (and under certain conditions), owners can sometimes realize a tax benefit (deduction).

Eligible easement recipient organizations: “Qualified organizations” include a variety of environmental, conservation, and preservation organizations equipped to hold preservation easements, including some nonprofits and government entities (such as a city, county or state government). Note: the Washington Trust for Historic Preservation recently established a program to hold easements throughout Washington state.

Where: If easement donors are seeking tax benefits, the building must be individually listed on the National Register of Historic Places, or be listed within a local historic district certified by the National Park Service.

Eligible projects: Most easements must have some kind of public benefit, which may include things like maintaining public or visual access. This, and other eligibility considerations, will be partly determined by the desired tax benefits, as well as the policy of the organization holding the easement.

RURAL DEVELOPMENT LOAN ASSISTANCE PROGRAM

Description: This program provides loan guarantees to eligible lenders to develop essential community facilities in rural areas. An essential community facility is defined as a public improvement, operated on a non-profit basis.

Administrator(s): US Department of Agriculture

Eligible organizations: Public entities, Nonprofits, and Federally-recognized Tribes

Where: Rural areas (cities and towns, including Federally-recognized Tribes) with fewer than 50,000 residents.

Eligible projects: Direct loan funds may be used to construct, enlarge, or otherwise improve community facilities for healthcare, public safety, public services, community support services, educational services. Funds can be used to purchase, construct, and/or improve essential community facilities, purchase equipment, and pay related project expenses.

Ineligible projects: Commercial enterprises, facilities used primarily for recreational purposes.

Contact: https://www.rd.usda.gov/programs-services/community-facilities-direct-loan-grant-program; Washington State Office: 360-704-7740

VALERIE SIVINSKI FUND

Description: The Valerie Sivinski Fund is an annual grant program that provides grants up to $2,000 to organizations and community groups engaged in historic preservation around our state. The grant program embodies the mission of the Washington Trust by supporting historic preservation where it really happens: at the community level.

Administrator(s): Washington Trust for Historic Preservation

Contact: 206-462-9449; grants@preservewa.org; https://www.preservewa.org/programs/valerie-sivinski-fund/how-to-apply/

CONTRIBUTORS:

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About Washington Main Street

Since 1984, Washington Main Street (WMS) has been helping communities revitalize the economy, appearance, and image of their downtown commercial districts. One of 45 Main Street America™ Coordinating Programs, a national network of thousands of Main Streets, WMS serves as the leading voice for preservation-based economic development and community revitalization in our state by utilizing outreach, design, promotion, and economic vitality to preserve and enhance historic downtown districts. As part of the Washington Trust for Historic Preservation, Washington Main Street manages the Washington State Main Street Program, a program of the Department of Archaeology & Historic Preservation, which serves a network of 66 towns and cities across the state, including 36 designated Main Street Communities and another 30 Affiliates.

Contact Us

206-624-9449
preservwa.org/mainstreet